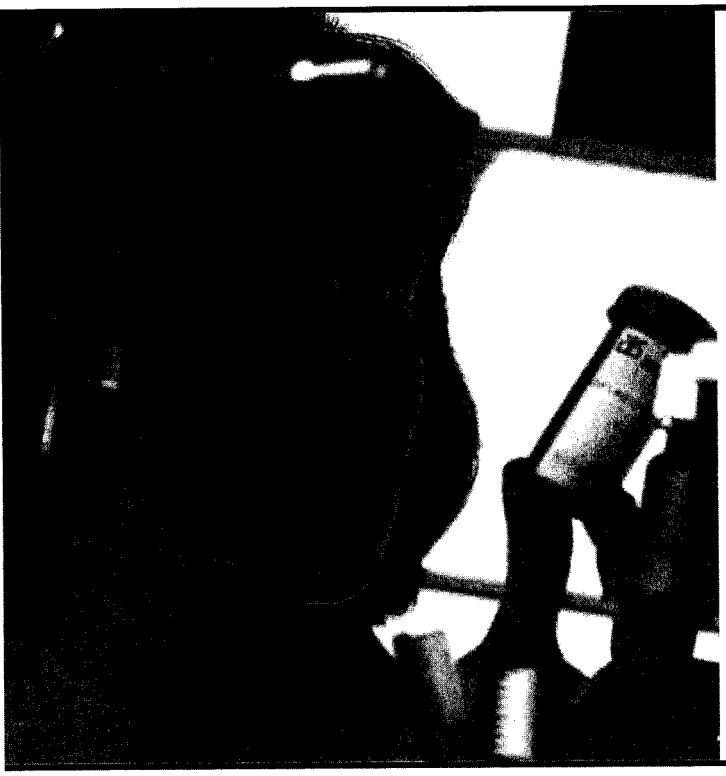
EXHIBIT 34

Center for Drug Evaluation and Research



REPORT TO THE NATION 2005

Improving Public Health Through Human Drugs

Statistics

Drug Safety

Drug Quality

Adverse Events

MedWatch

Withdrawals

New Drugs

New Therapeutic Biologics

Generic Drugs

Over-the-Counter Drugs

International Activities

Communications

U.S. Department of Health and Human Services
Food and Drug Administration
Center for Drug Evaluation and Research

**U.S. Department of
Health and Human Services**

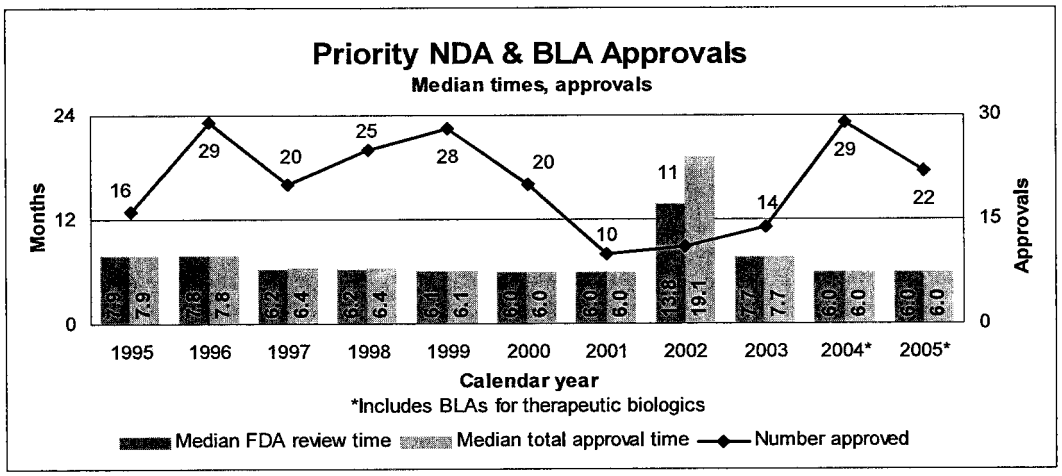
**Food and Drug Administration
Center for Drug Evaluation
and Research**

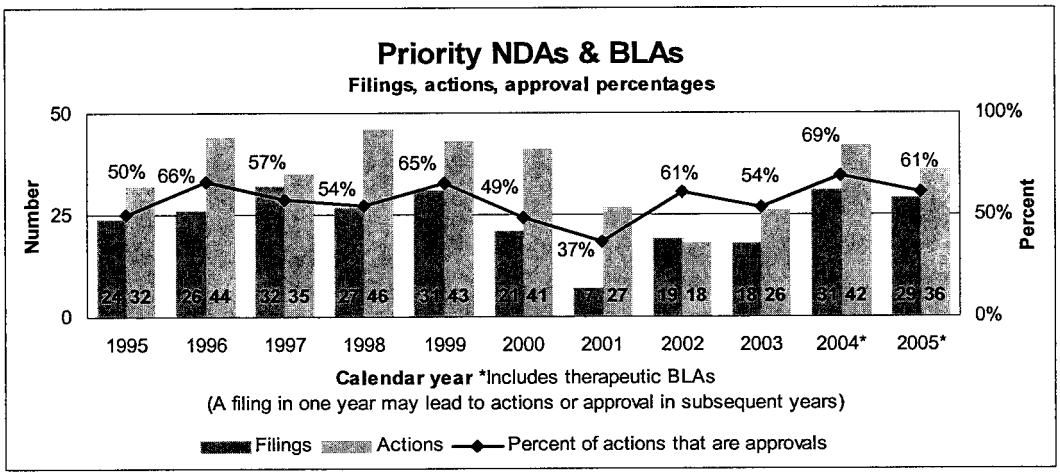
Center for Drug Evaluation and Research ***2005***

Report to the Nation

Improving Public Health Through Human Drugs

U.S. Department of Health and Human Services
Food and Drug Administration
Center for Drug Evaluation and Research





Priority new drugs and biologics

- **22 approvals**
  - 20 drugs
  - 2 biologics
- Median review time: 6.0 months
- Median approval time: 6.0 months
- 29 filings
- 36 actions

- **9 orphan approvals**
  - 8 drugs (6 NMEs)
  - 1 new biologic

Notable 2005 New Approvals

Last year's approvals benefited children, people with HIV infection, cancer, diabetes and other disorders.

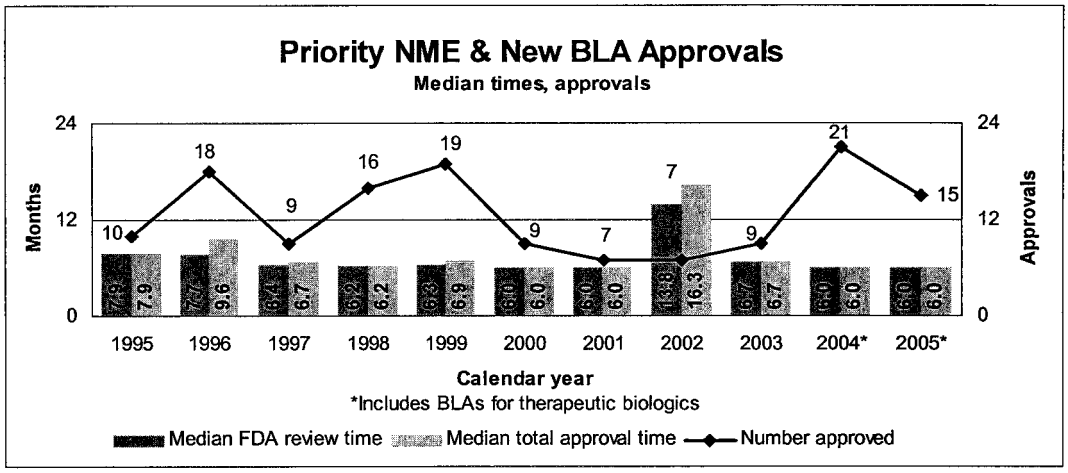
Children

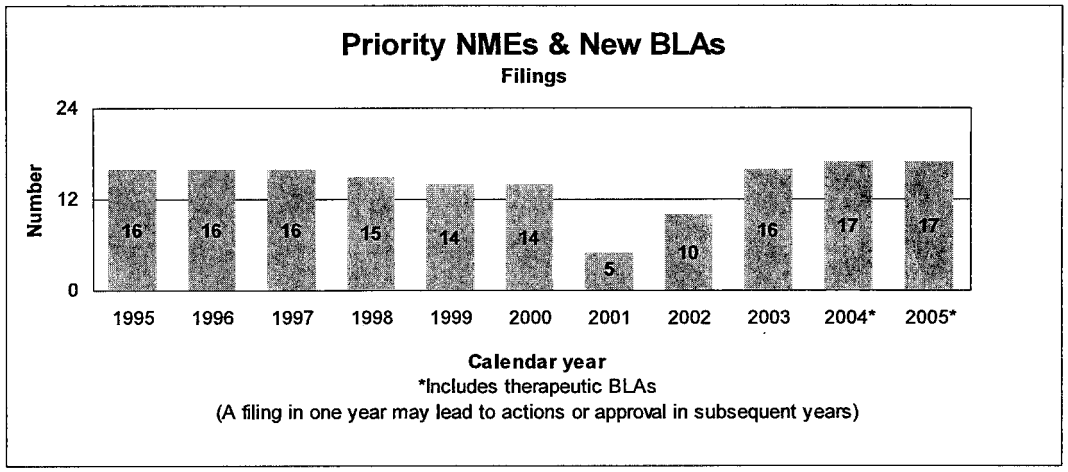
Emtricitabine (Emtriva) is an oral solution of an antiretroviral medicine that can be used in combination with other antiretroviral agents for the treatment of HIV infection in children 3 months old and older. The drug, first approved as a capsule for adults in 2003, is an HIV nucleoside reverse transcriptase inhibitor that helps to block an enzyme needed for HIV to multiply. Related to Best Pharmaceuticals for Children Act. *(priority)*

Mecasermin [rDNA origin] (Increlex) and *Mecasermin rinfabate [rDNA origin] (Iplex)* are for the long-term treatment of children who are very short for their age because their bodies do not make enough insulin-like growth factor-1. Both drugs contain human insulin-like growth factor-1 from genetically engineered bacteria, but mecasermin rinfabate also contains insulin-like growth factor binding protein-3 from genetically engineered bacteria. *(2 NMEs, priorities, orphans)*

Priority new molecular entities and new biologics

- **15 approvals**
- 13 NMEs
- 2 new BLAs
- Median review time: 6.0 months
- Median approval time: 6.0 months
- 17 filings



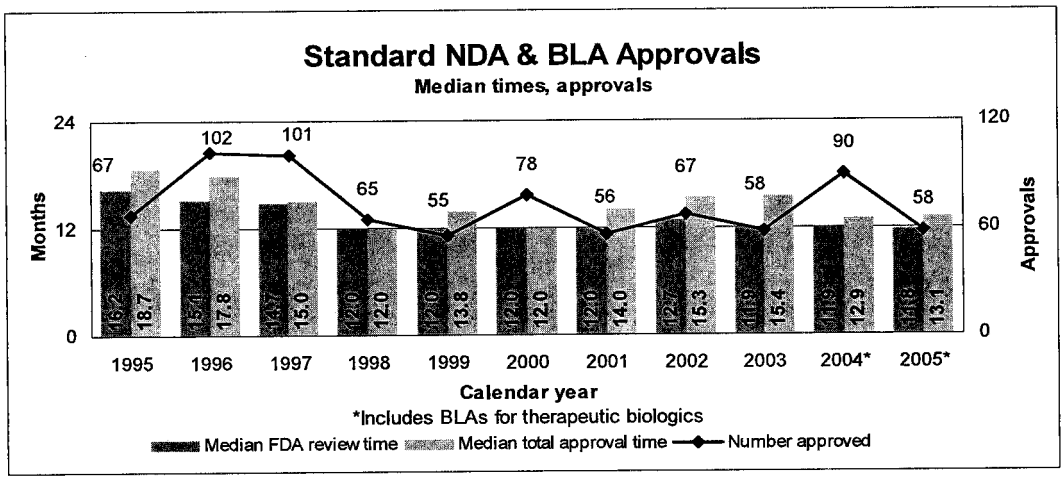


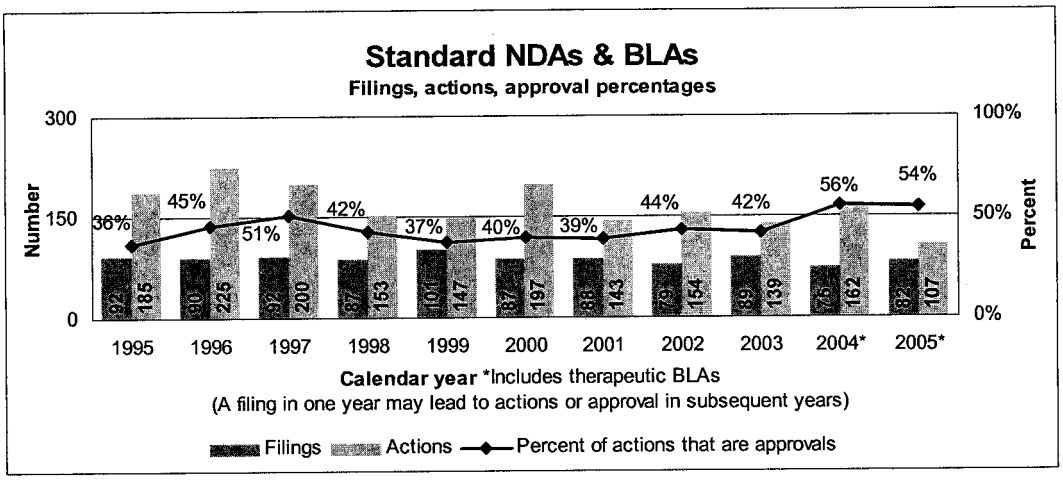
People with HIV infection

Lopinavir/ritonavir (Kaletra) is a new formulation in a tablet form that may be prescribed for once-daily use in combination with other anti-HIV medicines for some patients who have not taken anti-HIV medications in the past. *(priority)*

Tipranavir (Aptivus) is a protease inhibitor taken with 200 mg of ritonavir and two other anti-HIV medicines to treat adults with HIV infection. The drug blocks HIV protease, an enzyme needed for HIV to make more virus. Tipranavir helps reduce the amount of HIV in the blood and keep the immune system healthy so it can help fight infection. *(NME, priority)*

Lamivudine/zidovudine/nevirapine is the first three-drug HIV regimen in one package approved for purchase under the President's Emergency Plan for AIDS Relief (page 51). We gave it "tentative approval" in less than two weeks because patent or exclusivity provisions prevent its sale in the United States. It can also serve as a reference product for generic versions. *(priority)*





Standard drugs and biologics

- **58 approvals**
- 58 drugs
- Median review time: 11.8 months
- Median approval time: 13.1 months
- 82 filings
- 107 actions
- 1 orphan approval

Notable 2005 new drug approvals (continued)

People with cancer

Nelarabine (Arranon) is a chemotherapy drug for the treatment of patients with T-cell acute lymphoblastic leukemia and T-cell lymphoblastic lymphoma whose disease has not responded to or has relapsed following treatment with at least two chemotherapy regimens. *(NME, priority, orphan)*

Sorafenib tosylate (Nexavar) is a chemotherapy agent indicated for the treatment of patients with advanced cancer of the kidney cells. *(NME, priority, orphan)*

People with infections

Entecavir (Baraclude), in tablets and oral solution, treats chronic infection with hepatitis B virus in adults who also have active liver damage. Entecavir, a nucleoside analogue, competes with a natural substance needed for viral replication. The tablet form was counted as an NME. We also provided priority approval to a separate application for the oral solution. *(1 NME, both priorities)*

EXHIBIT 35

Connetics Corp. (CNCT-NASDAQ)

CNCT: Uncert. In Velac Could Create Price Pressure--Lower Est.

Q1 In-Line

Market Perform
April 26, 2005
Price $27.57
52 Wk. Rng. $31-17

Earnings Estimate Revised Down

EPS FY (Dec.)	2004 A Current	Prior	2005 E Current		Prior	2006 E Current	Prior	REV. 2005		2006	
Q1 (Mar.)	$0.05	NC	**$0.03**	A	**$0.02**	NE	NC	$42.4	MM	NE	
Q2 (June)	0.19	NC	**0.08**		**0.12**	NE	NC	46.1		NE	
Q3 (Sep.)	0.10	NC	**0.27**		**0.23**	NE	NC	47.5		NE	
Q4 (Dec.)	0.16	NC	**0.29**		**0.42**	NE	NC	48.8		NE	
Full FY	$0.51	NC	**$0.69**		**$0.80**	**$0.97**	**$1.18**	$184.8	MM	$230.9	MM
FYP/E	54.1x		40.0x			28.4x					
Full CY	$0.51	NC	**$0.69**		**$0.80**	**$0.97**	**$1.18**				
CYP/E	54.1x		40.0x			28.4x					

Source: Company data and WCM, LLC estimates NA = Not Available, NC = No Change, NE = No Estimate, NM = Not Meaningful

Shares Out.: (MM)	38.0	LT Debt: (MM)	$240.0
Market Cap.: (MM)	1,047.7	LT Debt/Total Cap.:	61.8%
Avg. Daily Vol.:	1,080,690	ROE:	18%
S&P 500:	1,151.52	3-5 Yr. Est. Grth. Rate:	25%
Float: (MM)	34.0	CY 2005 Est. P/E-to-Grth.:	1.6x
Div./Yield:	$0.00/0.0%	Last Reporting Date:	4/26/2005 *After Close*

Key Points

- **Lowering estimates to reflect Velac push out.** 2005 EPS from $0.80 to $0.69, 2006 EPS from $1.18 to $0.97. Our new model reflects Q3 2006 Velac launch, although this is a preliminary estimate at best. Q2 2005 EPS from $0.12 to $0.08 to reflect higher operating costs.
- **Less certainty in Velac timing.** Communications from FDA regarding the Velac NDA may be suggestive of safety concerns. CNCT expects to submit additional information shortly. Velac is CNCT's proprietary clindamycin/tretinoin gel for the treatment of acne.
- **FDA questions preclinical results.** There was a positive response to Velac in a transgenic mouse model, which could raise toxicology issues. Given the Agency's current sensitivity to safety, this could temporarily delay the PDUFA action date (June 25) on Velac, in our view.
- **We expect CNCT shares to be under pressure.** Velac is widely considered by investors to be a major growth driver for CNCT in the near-to-intermediate term. Given the current uncertainty, CNCT shares could come under pressure. In addition, this could compress its headstart, if any, against Clin-RA.

Valuation Range: $22 to $24

Our valuation range is based on a P/E multiple of 23.0-25.0x our 2006 EPS estimate of $0.97. Risks to the stock trading at our valuation range include a regulatory setback for Velac, deceleration in Evoclin, and earlier than expected generic competition for Soriatane.

Michael Tong
(212) 891-5067
michael.tong@wachovia.com
Victor Lau
(212) 891-5035
victor.lau@wachovia.com
Samuel Martin
(212) 891-5097
samuel.martin@wachovia.com

Please see page 6 for rating definitions, important disclosures and required analyst certifications.

Investment Thesis
We believe CNCT's proprietary foam technology and 4:2:1 business model could provide consistent new product flow. However, the shares appear fairly priced relative to CNCT's near-term prospects, in our view.

Company Description
Connetics Corp. is a specialty pharmaceutical company focusing exclusively on the treatment of dermatological conditions. The company promotes its products directly to dermatologists through its 125-person sales force. CNCT outsources manufacturing and distributes through wholesalers.

Management's comments raised concerns regarding Velac approval timing, in our view. CNCT indicated that in the past several weeks, it received communications from FDA regarding the Velac NDA. The communication involves a pre-clinical study in which there was a positive response to Velac in a transgenic mouse model, which could suggest safety concerns. CNCT indicated that it is continuing discussions with FDA on this issue, and expects to submit additional information shortly. Velac is CNCT's proprietary clindamycin/tretinoin gel for the treatment of acne. It is pending approval at FDA, with an action date of June 25, 2005.

In our opinion, FDA action by the June 25 PDUFA date appears unlikely. Given CNCT management's expectation of providing additional information to the FDA over the next several weeks, it leaves very little time for FDA to process the information and make a decision by June 25. Therefore, we believe FDA will likely seek an extension to the PDUFA action date, possibly by three months.

Is there a risk to Velac's approvability? We do not have sufficient information at this point to assess the approvability of Velac. The major risk, in our view, relates to safety.

The factors that are in favor of Velac's approvability include:

- The active ingredients (clindamycin and tretinoin) are FDA-approved
- The issue relates to a *preclinical* model, and there has been no evidence of severe adverse events in *human clinical* studies

On the other hand, the factors that are not in favor include:

- Safety is a major concern to FDA, as there have been several high-profile drug safety issues (e.g. COX-2 inhibitors, Tysabri)
- Velac is being developed for the treatment of acne, not exactly the most pressing need for a product with potential safety issues.

Ultimately, we believe Velac is approvable, on the strength of its Phase III data, in terms of efficacy and lack of serious adverse events. However, a delay in FDA action is highly probable, as we mentioned before. Therefore, we have adjusted our model to reflect the delay, although management maintains its prior revenue and EPS guidance (which are $196-$205 million and $0.88-$0.92, respectively). Management's guidance reflects Q3 2005 launch of Velac.

We believe the stock could trade at a valuation range of $22-$24 over the next 6-12 months. Our valuation range is based on a P/E multiple of 23.0x-25.0x our calendar EPS estimate of $0.97. CNCT has undergone recent multiple expansion, primarily on expectation of rapid EPS growth and from perceived headstart in the combination acne gel market. Given the uncertainty in Velac, the shares may see near-term multiple contraction. Risks to the stock trading at our valuation range include significant regulatory setback in Velac, deceleration in Evoclin growth, and earlier than expected generic Soriatane competition.

Lowering 2005 EPS estimate to $0.69 from $0.80 to reflect removal of Velac revenue. We have lowered our FY 2005 revenue estimate to $184.8 million from $198.8 million and our EPS estimate to $0.69 from $0.80. The downward revision in EPS reflects removal of $18.0 million in

Velac revenue, partially offset by an increase in sales of the other brands. Absent the Velac launch, CNCT should be able to focus more sales and marketing resources on its other brands.

Exhibit 1. Wachovia 2005 Product Revenue Estimates

Product ($MM)	New Estimate	Previous Estimate
Luxiq	25.7	24.8
OLUX	70.6	71.3
Soriatane	66.5	62.8
Evoclin	19.8	19.6
Velac	0.0	18.0
Other	2.2	2.3
Total	184.8	198.8

Source: Wachovia Capital Markets, LLC estimates

We are also lowering our Q2 EPS estimate to 0.08 from 0.12 to reflect higher operating expenses. While we have slightly increased our Q2 revenue assumption to $46.1 million from $44.0 million, these increased revenues are more than offset by higher operating expenses in Q2. CNCT expects to incur significant expenses in Q2 2005. Management guided to operating expenses of $34 to $36 million in Q2 driven by Evoclin marketing expenses, Velac pre-marketing activities, and higher administrative & co-promotion expenses related to ramping up the Ventiv agreement. For these reasons, we have increased our SG&A assumption to $27.0 million from $22.5 million.

Management's revenue and EPS guidance for Q2 2005 were $45-$47 million and $0.06-$0.08, respectively.

Lowering FY2006 EPS estimate to $0.97 from $1.18 to reflect H2 2006 launch of Velac. We have lowered our FY2006 revenue estimate to $230.9 million from $258.6 million. The decreased revenue reflects lowering our FY2006 Velac revenue to $13.2 million from $46.2 million to reflect a 2H 20006 launch. However, we acknowledge that any projection of Velac approval timing is conjecture at best, owing to the limited information we have been presented with. On the expense side, we have lowered FY2006 operating expenses to $140.7 million from $146.0 million to reflect the later Velac launch. We have also reduced our tax rate to 20% from 25% as lower 2005 and 2006 profitability would deplete CNCT's deferred tax asset at a slower rate.

We note that our FY2006 EPS and revenue estimates also assume generic Soriatane competition beginning in Q1 2006. In the even that a generic version of Soriatane does not materialize, our EPS estimate would increase to $1.47 on revenue of $259.5 million.

CNCT delivered $0.01 EPS upside, although revenue was lower than consensus. Reported Q1 2005 EPS were $0.03 on revenue of $42.4 million. Our corresponding estimates were $0.02 and $44.3 million, and consensus estimates were $0.02 and $43.2 million. Revenue growth of 69.6% yr/yr was driven by the addition of Soriatane and Evoclin, along with continued growth of OLUX and Luxiq. Although revenue was below our expectation, CNCT was able to more than offset this with higher gross margin and lower operating expenses. Gross margin of 91.1% was 110bps above our estimate. Operating expenses were $1.6 million below our estimate ($33.4MM A vs. $35.0MM E). At $5.8 million, R&D was $1.2 million below our expectation and SG&A of $27.6 million was $0.4 million below our estimate.

Exhibit 1. Q1 2005 Results vs. Wachovia's Prior Estimates

	Reported Actual	Wachovia Estimate	Actual vs. Estimate
Revenue ($MM)	42.4	44.3	(1.9)
yr/yr growth	69.6%	77.3%	(7.7%)
Gross Margin	91.1%	90.0%	1.1%
SG&A ($MM)	27.6	28.0	(0.4)
yr/yr growth	82.7%	85.3%	(2.6%)
R&D ($MM)	5.8	7.0	(1.2)
yr/yr growth	29.8%	57.6%	(27.9%)
Operating Income ($MM)	1.5	0.9	0.6
yr/yr growth	(42.2%)	(66.4%)	24.3%
Operating Margin ($MM)	3.5%	2.0%	1.6%
Tax Rate	9.2%	10.0%	(0.8%)
Net Income ($MM)	1.0	0.7	0.4
yr/yr growth	(44.4%)	(63.3%)	18.9%
Net Margin ($MM)	2.5%	1.6%	0.9%
EPS	0.03	0.02	.01
yr/yr growth	(47.5%)	(65.5%)	18.0%

Source: Company Reports and Wachovia Capital Markets, LLC estimates

Year-over-year revenue growth in-line with expectations. Q1 OLUX and Luxiq combined revenues grew 8.1% yr/yr with OLUX increasing 9.7% and Luxiq 3.8%. Soriatane revenue came in at $17.6 million, $0.5 million below our expectation. Management declined to break out US and international Soriatane sales, but did mention that Soriatane international sales were in line with an annual run rate of ~$12 million.

Exhibit 3. Q1 2005 Revenue vs. Wachovia's Prior Estimates

Product ($MM)	Reported Actual	Wachovia Estimate	Actual vs. Estimate
Luxiq	5.7	6.3	(0.6)
yr/yr growth	3.8%	15.0%	(11.2%)
OLUX	15.8	16.7	(0.9)
yr/yr growth	9.7%	16.1%	(6.4%)
Soriatane	17.6	18.1	(0.5)
yr/yr growth[1]	N/A	N/A	N/A
Evoclin	3.1	2.9	0.2
yr/yr growth	N/A	N/A	N/A
Other	0.2	0.3	(0.1)
yr/yr growth	(87.9%)	(79.9%)	(8.0%)

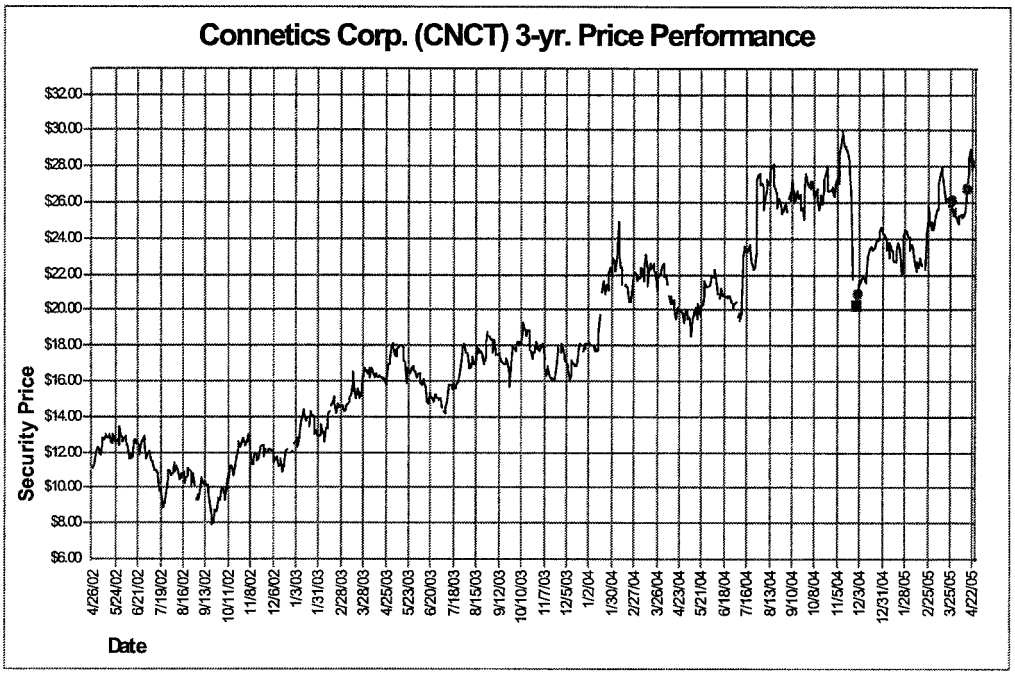
1. Soriatane acquired Q1 2004, only partial quarter sales.
Source: Company Reports and Wachovia Capital Markets, LLC estimates

CONNETICS CORPORATION
EARNINGS MODEL
($ million except per share data)

	2004A					2005E					2006E
	Q1	Q2	Q3	Q4	Year	Q1	Q2	Q3	Q4	Year	Year
Revenue											
Product sales	23.6	38.0	37.0	43.5	**142.1**	42.2	45.8	46.9	47.7	**182.6**	**218.5**
Royalty	1.4	0.2	0.1	0.3	**1.9**	0.2	0.2	0.5	1.0	**1.9**	**12.0**
License, contract, and other	0.1	0.1	0.3	0.0	**0.4**	0.0	0.1	0.1	0.1	**0.3**	**0.4**
Total revenue	25.0	38.3	37.3	43.8	**144.4**	42.4	46.1	47.5	48.8	**184.8**	**230.9**
Cost of product revenue	1.6	3.6	3.1	4.4	**12.7**	3.8	4.4	4.5	4.9	**17.5**	**23.1**
Gross profit	23.4	34.7	34.3	39.3	**131.7**	38.6	41.8	43.0	43.9	**167.3**	**207.8**
Operating costs and expenses											
R&D	4.4	5.1	6.2	5.7	**21.4**	5.8	7.0	7.5	6.5	**26.8**	**28.4**
SG&A	15.1	17.5	17.0	23.2	**72.8**	27.6	27.0	19.0	20.0	**93.6**	**112.3**
Acquired in-process R&D/milestone	0.0	0.0	3.5	0.0	**3.5**	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Amortization	1.3	3.4	3.4	3.8	**11.8**	3.7	3.8	4.1	4.1	**15.8**	**16.3**
Loss on program termination	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Total operating expenses	20.8	26.0	30.1	32.7	**109.5**	37.1	37.8	30.6	30.6	**136.2**	**157.0**
Operating income	2.6	8.7	4.2	6.7	**22.2**	1.5	4.0	12.4	13.3	**31.1**	**50.8**
Other income											
Interest income	0.3	0.2	0.3	0.0	**0.8**	0.0	0.0	0.3	0.3	**0.6**	**1.0**
Gain on sale of investment	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Interest expense	(0.9)	(0.7)	(0.7)	(0.2)	**(2.5)**	(0.4)	(0.5)	(1.0)	(1.0)	**(2.9)**	**(4.0)**
Gain on sale of FX forward contract	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Gain on sale of Riadura line	0.0	0.0	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Other income (expense), net	0.1	(0.1)	0.0	0.0	**0.0**	0.0	0.0	0.0	0.0	**0.0**	**0.0**
Total other income	(0.5)	(0.6)	(0.4)	(0.2)	**(1.7)**	(0.4)	(0.5)	(0.7)	(0.7)	**(2.3)**	**(3.0)**
Pretax income	2.1	8.1	3.8	6.4	**20.5**	1.1	3.5	11.7	12.6	**28.8**	**47.8**
Income taxes	0.2	0.6	0.1	0.5	**1.5**	0.1	0.3	1.2	1.3	**2.9**	**9.6**
Net income	1.9	7.5	3.7	6.0	**19.0**	1.0	3.1	10.5	11.3	**26.0**	**38.2**
Shares outstanding (diluted)	35.9	37.4	38.1	38.2	**37.4**	38.0	36.7	36.7	36.7	**37.0**	
Shares outstanding (convert)	40.1	41.6	42.3	42.4	**42.4**	42.1	40.8	40.8	40.8	**41.1**	**41.0**
Earnings per share data:											
Reported EPS	$0.05	$0.19	$0.10	$0.16	**$0.51**	$0.03	$0.08	$0.27	$0.29	**$0.69**	**$0.97**
Adjustment	0.00	0.00	0.00	0.00	**0.00**	0.00	0.00	0.00	0.00	**0.00**	**0.00**
Adjusted EPS	$0.05	$0.19	$0.10	$0.16	**$0.51**	$0.03	$0.08	$0.27	$0.29	**$0.69**	**$0.97**
Ratio Analysis											
Gross margin	93.7%	90.6%	91.8%	89.9%	**91.2%**	91.1%	90.5%	90.5%	90.0%	**90.5%**	**90.0%**
Operating margin	10.4%	22.8%	11.3%	15.2%	**15.4%**	3.5%	8.6%	26.1%	27.2%	**16.8%**	**22.0%**
Net margin	7.5%	19.5%	9.9%	13.7%	**13.2%**	2.5%	6.7%	22.1%	23.2%	**14.1%**	**16.6%**
R&D/total revenue	17.8%	13.3%	16.5%	13.0%	**14.8%**	13.6%	15.2%	15.8%	13.3%	**14.5%**	**12.3%**
SG&A/total revenue	60.5%	45.7%	45.5%	53.1%	**50.4%**	65.1%	58.5%	40.0%	41.0%	**50.7%**	**48.7%**
Tax rate	11.5%	8.0%	3.8%	7.1%	**7.3%**	9.2%	10.0%	10.0%	10.0%	**10.0%**	**20.0%**
Growth Analysis (year-over-year)											
Revenue	63.2%	91.6%	89.4%	115.2%	**91.6%**	69.6%	20.6%	27.3%	11.4%	**28.0%**	**24.9%**
SG&A	38.6%	64.9%	70.6%	120.0%	**73.4%**	82.7%	54.6%	11.9%	(14.0%)	**28.6%**	**20.0%**
R&D	(48.5%)	(40.9%)	(0.5%)	(12.7%)	**(28.9%)**	29.8%	37.4%	21.4%	14.3%	**25.0%**	**6.0%**
Operating income	NM	NM	116.0%	276.2%	**NM**	(42.2%)	(54.6%)	194.1%	99.4%	**40.3%**	**63.3%**
Pretax income	NM	NM	135.7%	326.0%	**NM**	(45.8%)	(57.4%)	204.4%	94.8%	**40.7%**	**65.7%**
Net income	NM	NM	128.7%	265.7%	**NM**	(44.4%)	(58.3%)	184.7%	88.7%	**36.6%**	**47.2%**
EPS (adjusted)	NM	NM	101.9%	222.8%	**NM**	(47.5%)	(55.6%)	180.0%	85.5%	**35.3%**	**41.5%**

Source: Company reports and Wachovia Capital Markets, LLC estimates

Required Disclosures



	Date	Close Price ($)	Rating Code	Target Price ($)	Val. Rng. Low	Val. Rng. High
■	11/30/2004	Tong				
●	12/1/2004	20.91	2	NE	21.00	23.00
●	3/28/2005	26.10	2	NE	25.00	27.00
●	4/15/2005	26.80	2	NE	26.00	29.00

Source: Wachovia Capital Markets, LLC estimates and Bridge data

Beginning 01/04/2003 stock valuation range replaces target price

Symbol Key

◆	Rating Scale Conversion	▲	Rating Upgrade
●	Rating, Target Price and/or Val. Rnge. Chnge.	■	Analyst Change
▼	Rating Downgrade	□	Split Adjustment

Rating Code Key

1	Outperform	SR	Suspended
2	Market Perform	NR	Not Rated
3	Underperform	NE	Not Estimate

Additional Information Available Upon Request

I certify that:

1) All views expressed in this research report accurately reflect my personal views about any and all of the subject securities or issuers discussed; and
2) No part of my compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed by me in this research report.

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Wachovia Capital Markets, LLC and/or its affiliates, have beneficial ownership of 1% or more of any class of the common stock of Connetics Corp.

Risks to the stock trading at our valuation range include a regulatory setback for Velac, deceleration in Evoclin, and earlier than expected generic competition for Soriatane.

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1 = Outperform: The stock appears attractively valued, and we believe the stock's total return will exceed that of the market over the next 12 months. BUY

2 = Market Perform: The stock appears appropriately valued, and we believe the stock's total return will be in line with the market over the next 12 months. HOLD

3 = Underperform: The stock appears overvalued, and we believe the stock's total return will be below the market over the next 12 months. SELL

As of: April 26, 2005
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54% of companies covered by Wachovia Equity Research are rated Market Perform.
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SECURITIES: NOT FDIC-INSURED/NOT BANK-GUARANTEED/MAY LOSE VALUE

EXHIBIT 36

Jefferies & Company, Inc. Equity Research

Specialty Pharmaceuticals **Rating Change – April 27, 2005**

David H. Windley, CFA, CPA (615) 963-8313 dwindley@jefco.com Himanshu Rastogi, Ph.D. (615) 963-8339 hrastogi@jefco.com

Connetics Corporation

NASDAQ: CNCT – $27.57

Rating: Hold

52-Week Range	$30.41 – $17.95	FY Dec	2004	2005E	2006E
Shares Out (MM)	38	1Q	$0.05	$0.03A	--
Float (MM)	34	2Q	0.19	0.06E	--
Insider Ownership	11%	3Q	0.10	0.24E	--
Institutional Ownership	110%	4Q	0.17	0.34E	--
Avg. Daily Vol (000)	855	EPS	$0.51	$0.68E	$1.26E
Equity Market Cap (MM)	$1,048	P/E	54x	40.5x	21.9x
Total Enterprise Value (MM)	$1,104	Revenue	$144	$188	$247
Long-term Debt (MM)	$290	EBITDA	$39	$44	$77
Price Target	$25	EV/EBITDA	28.3x	25.1x	14.3x
		($MM, except per share data)			

Velac Approval Will Most Likely Get Delayed

We are downgrading the shares of Connetics Corporation to a **Hold** (from a Buy) and lowering our 12-month price target to **$25** (from $31.50). Management disclosed during the earnings call yesterday that the FDA has sought more information on preclinical studies conducted on Velac. We continue to believe that Velac should get approved, but a positive FDA decision by the 10-month PDUFA date looks difficult at this point, in our opinion. Connetics is a dermatology-focused specialty pharmaceutical company. Its portfolio and pipeline target two of the largest markets within dermatology, acne and psoriasis.

Rationale for the downgrade

Under the general rules of thumb that future outlook is more important than the reported results and uncertainty never sits well, the lower 2Q guidance and revelations of an 11th hour FDA safety inquiry overwhelm the modest 1Q upside surprise, in our view. We considered several factors in ultimately deciding to downgrade the stock.

1. Notwithstanding any potential Velac delays, Connetics' EPS are more severely back-end loaded than we, and the consensus, had anticipated. To us, this signals an even greater dependence on a timely Velac launch (early 3Q).
2. We expect Velac to get approved, but not in June. Visibility on the exact timing is very low. We moved our assumption back six months (to January), which results in $0.10 - $0.15 of 2005 sensitivity and $0.18 - $0.22 of 2006 sensitivity. We did adjust expenses down somewhat in 2006.
3. Based on our expectation of eventual approval, we continue to forecast attractive, though lower growth over the next several years. We think this growth outlook and management's effort to continually build pipeline provide some downside protection to the stock. This should also warrant a premium multiple to the specialty pharma group, which trades at 16x 2006, though that will likely be ignored in Wednesday's trading, we believe.
4. Even then, a 20x (a 25% premium) multiple on our $1.26 estimate for 2006 produces a $25 price target, 10% below last night's close but above the level's in after hours trading.
5. Anticipating the gap down on the open Wednesday, this stock is a Hold, not an Underperform/Sell. The stock should settle around $24-$25, we believe. To get more constructive, we will look for better visibility on the transgenic mouse tumor issue, rapid acceleration in scripts in the Ventiv contract, and/or a cleaner (read lack of generics) outlook for Soriatane.

The issue facing Connetics on Velac is not unknown

Here is an excerpt from the FDA approved label for the acne treatment BenzaClin topical gel, a combination product consisting of clindamycin (one of Velac's ingredients) and benzoyl peroxide. The quote is taken from the section on Carcinogenesis, Mutagenesis, Impairment of Fertility on page 5 of the label.

"Benzoyl peroxide has been shown to be a tumor promoter and progression agent in a number of animal studies. The clinical significance of this is unknown. Benzoyl peroxide in acetone at doses of 5 and 10 mg administered twice per week induced skin tumors in transgenic Tg.AC mice in a study using 20 weeks of topical treatment."

In preclinical studies, Velac was tested in the same mice specimen as underlined above. In our off-line conversation, management revealed that only one mouse displayed a similar response as the one mentioned in the quote above. Management evaluated this data while Velac was under development and decided that the response does not have clinical relevance. The fact that BenzaClin (and a similar product, Duac), are widely prescribed, lends support management's stand, in our opinion. Connetics expects to submit a response to the FDA in the coming weeks, before the 10-month PDUFA date, and management is hopeful that Velac will receive a timely approval. Hence, it is not revising 2005 guidance. We are taking a more conservative position given the heightened concern around drug safety, in general, at the FDA. The PDUFA date is only two months away, and this may not be sufficient to resolve the issue to FDA's satisfaction. Hence, we are assuming that the Agency will require a typical three-month extension for completing its review.

Quarter's results versus our forecast

Connetics reported EPS of $0.03 for the first quarter. Our forecast was $0.01. Higher gross margin and lower R&D expenses versus our forecast led to the EPS upside. Product revenue was $42.2 million, in line with our forecast ($41.9 million). While sales of OLUX and Luxiq were lower than we had estimated, Soriatane and Evoclin beat our forecast. OLUX (clobetasol) sales were $15.8 million, down $0.5 million from 4Q04. Total prescriptions declined by 1,600 in that period. The combined volume of all clobetasol products (branded and generic) was flat sequentially. Luxiq sales were $5.7 million, also $0.5 million lower than the fourth quarter sales. Total Luxiq prescriptions were comparable to last quarter's. Soriatane sales were $17.6 million, a million higher than our forecast. Total prescriptions were essentially the same as in 4Q04. Evoclin sales were $3.1 million, $0.7 million higher than our forecast. Nearly 30,000 prescriptions were dispensed in 1Q05, Evoclin's first full quarter on the market.

Gross margin was 91.1%, 110 basis points higher than we had estimated, and 130 basis points higher than the gross margin in 4Q04. Product mix was responsible for the observed movement in gross margin. SG&A expenses were in line with our estimate, but lower than what management said it had budgeted. R&D expenses were a million lower than our forecast. Operating expenses are expected to increase in the second quarter. Connetics is running Phase III trials for two products, Desilux and Primolux. These will cause R&D expenses to grow sequentially. SG&A expenses are forecast to be much higher in the first half of the year due to costs associated with the ramp of Ventiv contract (VTIV, Buy, $21.61), continued investment in Evoclin, and pre-launch expenses associated with Velac.

Guidance and Estimates

Management expects sales growth in all four marketed products in the balance of the year. Based on the positive experience with UCB Pharma, management believes that the contract sales force hired from Ventiv will help rejuvenate prescription growth in OLUX and Luxiq. The EPS guidance for 2Q05 was set well below the current consensus ($0.18). For the second quarter, our revenue forecast ($45 million) is at the low end of management's guidance ($45-$47 million). However, the guidance for SG&A expense was much higher than we had previously assumed. Consequently, we are lowering our second quarter EPS estimate from $0.23 to $0.06. SG&A expenses are heavily front-end loaded. SG&A expenses are expected to decline after 2Q05, and thus 2H05 EPS is projected to be significantly higher (~$0.80, assuming mid-point of guidance).

We have pushed Velac in our model to the first quarter of 2006. This has lowered our 2005 revenue forecast by about $6 million. Operating expenses are $5 million higher in our revised forecast. These changes reduce the 2005 EPS from $0.84 to $0.68. The delayed introduction of Velac lowers our 2006 revenue forecast by about $20 million. Our 2006 EPS goes to $1.26 from $1.48. This still represents a very healthy 85% year-over-year EPS growth. We expect growth to remain strong in 2007 as Velac ramps and at least two new products, Desilux and Primolux, start contributing. Hence, we continue to value CNCT at

a premium to the group. Our $25 price target is based on 20x our 2006 estimate. The stock was trading around $23 in the aftermarket yesterday, within 10% of our price target. We are lowering CNCT to a Hold.

Table 1: Product Sales Forecast (2005-06)

	2005E			2006E		
Product	Volume	Sales ($million)	Percent Contribution	Volume	Sales ($million)	Percent Contribution
OLUX	490	70	37%	536	79	32%
Luxiq	292	25	14%	302	27	11%
Soriatane (U.S.)	132	59	32%	138	63	26%
Soriatane (ex-U.S.)		11	6%		11	4%
Evoclin	236	19	10%	445	38	16%
Velac	0	2	1%	202	27	11%
Product Revenue		**187**			**246**	

Source: Jefferies & Company, Inc

Table 2: Earnings Model ($ thousands, except per share data)

FY December	2004					2005E					2006E
	Q1	Q2	Q3	Q4	2004	Q1	Q2	Q3	Q4	2005	2006
Product Revenue	23,566	37,999	36,999	43,495	142,059	42,190	44,680	47,629	52,878	187,377	246,463
Contract and royalty	1,416	254	345	281	2,296	181	200	200	200	781	800
Total revenue	24,982	38,253	37,344	43,776	144,355	42,371	44,880	47,829	53,078	188,158	247,263
Cost of products sold	1,568	3,578	3,067	4,443	12,656	3,766	4,212	4,490	4,984	17,452	26,417
R&D	4,286	4,957	6,038	5,687	20,968	5,763	6,732	5,979	6,104	24,578	34,678
SG&A	15,072	17,239	16,789	23,245	72,345	27,601	27,826	23,436	23,354	102,217	108,796
Total operating expenses	20,926	25,774	25,894	33,375	105,969	37,130	38,770	33,904	34,443	144,246	169,891
EBITDA	4,056	12,479	11,450	10,401	38,386	5,241	6,111	13,924	18,635	43,911	77,372
D&A	1,648	3,767	3,738	3,750	12,903	3,742	3,857	4,016	4,217	15,832	17,092
EBIT	2,408	8,712	7,712	6,651	25,483	1,499	2,254	9,909	14,418	28,080	60,281
Interest income (expense)	(292)	(608)	(373)	(202)	(1,475)	(353)	486	529	597	1,259	3,108
Other/charges	-	-	(3,500)	-	(3,500)	-	-	-	-	-	-
Pretax Income	2,116	8,104	3,839	6,449	20,508	1,146	2,740	10,437	15,015	29,338	63,388
Taxes	243	647	144	459	1,493	105	274	1,044	1,502	2,924	14,262
Net Income	1,873	7,457	3,695	5,990	19,015	1,041	2,466	9,394	13,514	26,414	49,126
EPS	**$ 0.05**	**$ 0.19**	**$ 0.10**	**$ 0.16**	**$ 0.51**	**$ 0.03**	**$ 0.06**	**$ 0.24**	**$ 0.34**	**$ 0.68**	**$ 1.26**
Weighted Shares O/S	35,887	41,627	38,064	38,172	37,433	38,014	38,314	38,814	39,314	38,614	38,864
Common Size:											
Product Revenue	94.3%	99.3%	99.1%	99.4%	98.4%	99.6%	99.6%	99.6%	99.6%	99.6%	99.7%
Contract and royalty	5.7%	0.7%	0.9%	0.6%	1.6%	0.4%	0.4%	0.4%	0.4%	0.4%	0.3%
Total revenue	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Direct costs (Product)	6.7%	9.4%	8.3%	10.2%	8.9%	8.9%	9.4%	9.4%	9.4%	9.3%	10.7%
Gross margin	93.3%	90.6%	91.7%	89.8%	91.1%	91.1%	90.6%	90.6%	90.6%	90.7%	89.3%
R&D	17.2%	13.0%	16.2%	13.0%	14.5%	13.6%	15.0%	12.5%	11.5%	13.1%	14.0%
SG&A	60.3%	45.1%	45.0%	53.1%	50.1%	65.1%	62.0%	49.0%	44.0%	54.3%	44.0%
Total operating expenses	83.8%	67.4%	69.3%	76.2%	73.4%	87.6%	86.4%	70.9%	64.9%	76.7%	68.7%
EBITDA Margin	16.2%	32.6%	30.7%	23.8%	26.6%	12.4%	13.6%	29.1%	35.1%	23.3%	31.3%
D&A	6.6%	9.8%	10.0%	8.6%	8.9%	8.8%	8.6%	8.4%	7.2%	8.4%	6.9%
EBIT Margin	9.6%	22.8%	20.7%	15.2%	17.7%	3.5%	5.0%	20.7%	27.2%	14.9%	24.4%
Interest income (expense)	-1.2%	-1.6%	-1.0%	-0.5%	-1.0%	-0.8%	1.1%	1.1%	1.1%	0.7%	1.3%
Other/charges	0.0%	0.0%	-9.4%	0.0%	-2.4%	0.0%	0.0%	0.0%	0.0%	0.0%	0.0%
Pretax Income	8.5%	21.2%	10.3%	14.7%	14.2%	2.7%	6.1%	21.8%	28.3%	15.6%	25.6%
Taxes	11.5%	8.0%	3.8%	7.1%	7.3%	9.2%	10.0%	10.0%	10.0%	10.0%	22.5%
Net Income	7.5%	19.5%	9.9%	13.7%	13.2%	2.5%	5.5%	19.6%	25.5%	14.0%	19.9%

Source: Company SEC Filings, Jefferies & Company, Inc.

We, David H. Windley, CFA, CPA and Himanshu Rastogi, certify that all of the views expressed in this research report accurately reflect our personal views about the subject security(ies) and subject company(ies). We also certify that no part of our compensation was, is, or will be, directly or indirectly, related to the specific recommendations or views expressed in this research report.

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Risk which may impede the achievement of our Price Target

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Distribution of Ratings

The table below lists the distribution of investment ratings for our coverage universe, and the percentage of those companies in each rating category that are banking clients:

	% Companies Covered	% Banking Clients
Buy	51	19
Hold/Neutral	43	12
Underperform/Sell	6	n/a

Price Chart(s)

Price charts for the equity securities referenced in this research report are available at http://www.jefco.com.

The company that is the focus of this report has been covered by Jefferies for less than one year. Therefore, no price chart is provided.

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EXHIBIT 37

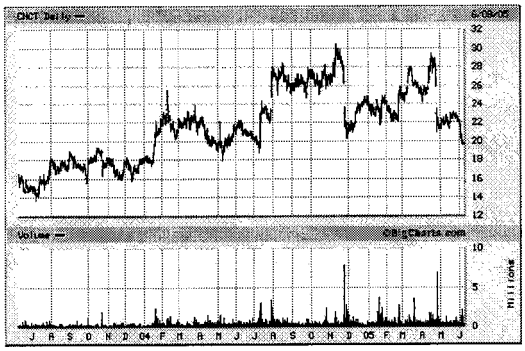
Summer Street RESEARCH PARTNERS
One Beacon Street
34th Floor
Boston, MA 02108
617-532-6400

Connetics – Outlook for Velac PDUFA Date

June 9, 2005

Recommendation: NEUTRAL

Jon Stephenson, CFA jons@summersp.com



Source: Bigcharts.com

Stock Data (CNCT)

Price	$19.66
52-wk high:	$30.41
52-wk low:	$18.80
Shares out:	35.9MM
Float:	33.8MM
Shares short:	5.4MM
Avg vol (10-day):	0.9MM

Valuation Metrics

Market cap:	$706.4MM
Enterprise value:	$762.7MM
Book value/share:	$2.66

Financial Highlights (Mar:05)

Cash/equivalents:	$233.7MM
Debt:	$290.0MM
Book value:	$95.5MM
Cash Flow (TTM):	$47.9MM

- The PDUFA date for Connetics' Velac (tretinoin-clindamycin gel, for the treatment of acne) is rapidly approaching (6/25/05).
- In our opinion, a delay in the approval/launch of Velac of approximately one quarter is the most likely outcome (60% probability), with a 12-18 month delay having a 20% probability and an approval on the 6/25/05 PDUFA date having a 20% probability.
- We continue to believe that the market for retinoid-containing combinations will be more competitive than many analysts forecast. Our model still assumes an approval/launch of Medicis' (NYSE:MRX-$29.04-Neutral) Clin-RA in H2:05. We have also learned that Galderma completed a late stage clinical trial of another acne combination, Differin and benzoyl peroxide. This is an added risk that has not been reflected in our model.
- Additionally, Connetics announced yesterday that it plans to initiate a confirmatory trial of Extina (ketoconazole foam). This trial will have increased power to detect the difference between the drug and placebo vehicle when compared to the previous trial. We have assumed a 2H:07 launch in our model.
- We believe that if a minor delay (one quarter) in the Velac approval/launch occurs, the stock will trade up modestly. In our opinion, a significant delay (12-18 months) would results in a mid-teens price and an approval could drive the stock into the low/mid $20's. Therefore, the current price may present a near-term buying opportunity. However, we continue to rate Connetics Neutral as we believe investors are overly bullish on Velac's potential.

Investment Thesis

Connetics business strategy revolves around the development of topical dermatology products, utilizing its foam and gel formulation. This is a highly competitive market and the timing of competition is difficult to project. Additionally, the company's revenues and EPS are significantly leveraged to Soriatane, an oral product for the treatment of severe psoriasis. We rate shares of Connetics NEUTRAL due to the risk of generic soriatane and conservative estimates for Velac market potential.

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VELAC – CARCINOGENICITY SIGNAL

On April 26, Connetics announced that the FDA asked questions about the company's preclinical toxicology work in its NDA submission of Velac, a topical gel combining tretinoin and clindamycin. We understand, the company saw a carcinogenic signal (increased incidence of papillomas on the skin) when assessing the combination of clindamycin plus the vehicle in a transgenic mouse model. In an effort to gain a greater understanding of the issues surrounding transgenic mouse models, we spoke with some toxicologists who have first hand experience with the FDA and/or preclinical toxicology studies. Our sources found this preclinical signal somewhat perplexing given that clindamycin has such an extensive history of use and is not known to be carcinogenic. That being said, it is important to note that in a hairless mouse model in which the animals were exposed to simulated sunlight, Galderma's Clindagel exhibited a statistically significant decrease in the median time to tumor onset.

We reviewed the potential components of the Velac vehicle (outlined in patent # 5,690,923) with our consultants and they noted that none of the potential components were known to induce a carcinogenic response. However, we cannot rule out the possibility that this could have occurred or that any of the components has acted synergistically with either clindamycin or another component of the vehicle.

Additionally, our consultants indicated that it is theoretically possible for spontaneous tumors to present in a transgenic mouse model. For example, this could occur if the mice were to scratch themselves extensively in a given region and they were prone to dermatitis. Additionally, if these mice were subjected to infection, it could further increase the chances of tumor formation unrelated to the product. If the tumors seen in the preclinical trials were unrelated to the drug, Connetics would be required to submit evidence that there were other issues predisposing these mice to increased risk of tumor formation.

We have received mixed opinions from our toxicology experts as to whether or not the FDA is likely to require that Connetics perform additional preclinical trials with Velac before receiving approval. One consultant believed that when an unusual signal such as that seen with Velac occurs, the FDA would require additional preclinical work in order a) to determine the cause of this result or b) to verify that the signal was spurious. Another toxicology expert with whom we spoke believed that the product would likely be approved with a post-marketing commitment and a carcinogenicity warning, in light of the known safety of the two active ingredients.

We see three possible scenarios regarding the timing of Velac. First, the FDA could choose to approve the product on the PDUFA date (6/25/05). In this scenario, the product's label would include a warning pertaining to a carcinogenic signal in the transgenic mouse model. Our dermatology consultants believe this would have a small impact on the marketability of the product. Secondly, the agency could choose to extend the PDUFA date. We understand that the company has submitted a response to the FDA's questions. We suspect that this response consists only of consultant's opinion regarding the carcinogenicity signal since the company has not had time to generate additional preclinical data on the product. It is also possible that the company has (or could) submitted a new proposed label. The FDA could utilize either as a reason to extend the PDUFA date on Velac. We believe this would result in a delay of a few months and would imply a Q4:05 launch of Velac. Lastly, it is possible that the agency could ask for additional preclinical data. We believe if the agency chooses to pursue this route, it would likely lead to a 12-18 month delay in the product's launch, implying a H2:06 launch.

Overall, we believe some delay in the approval of Velac is likely (>90%), with a short delay the most likely outcome (60%) and a long delay being less likely (20%). We believe that the FDA will likely view any additional submissions as a reason for delay, but that the product will likely have a short delay due to the fact that both chemical entities are broadly used today. In this scenario, the impact of a modest delay to Velac hinges upon the timelines for similar products looming on the horizon. If other products such as

Medicis' Clin-RA enter the market in H2:05, the impact of even a short delay for Velac would be magnified. It should be noted that we have already assumed a H2:05 launch of Clin-RA in our Connetics projections.

CLIN-RA – STILL ON THE HORIZON

When we initiated on Connetics with a Neutral rating on 3/8/05, we pointed out that Medicis also had a tretinoin-clindamycin combination product nearing market. There has been persistent speculation that this product was significantly delayed due to either a) an approvable letter requiring additional studies or b) problems with the results of its phase III program prior to submission. We continue to believe that a H2:05 approval of this product is very possible (>50% probability).

Additionally, we believe that it is possible that Clin-RA has been delayed due to issues similar to those raised by the agency regarding the Velac NDA. If this is the case, one of two scenarios will play out: 1) Both products will come to market in the near term and they fight for share or 2) neither product comes to market any time soon as the FDA requests additional preclinical data. Either scenario would be a negative for Connetics relative to consensus expectations. The first scenario is reflected in our estimates.

Figure 1: Incremental EPS with 12-18 month Delay in Clin-RA

	2005	2006	2007	2008	2009
Currrent Projected Revenues	$188.0	$246.0	$283.8	$342.6	$400.7
Revenues	$6.0	$24.0	$30.0	$33.0	$35.5
COGS	($0.6)	($2.4)	($3.0)	($3.3)	($3.6)
Interest Income	$0.1	$0.3	$0.8	$1.4	$2.2
Pretax Impact	**$5.5**	**$21.9**	**$27.8**	**$31.1**	**$34.1**
Tax Expense	($1.9)	($7.7)	($9.7)	($10.9)	($11.9)
Net Income	**$3.6**	**$14.3**	**$18.1**	**$20.2**	**$22.2**
Incremental EPS	**$0.08**	**$0.33**	**$0.42**	**$0.46**	**$0.50**
Shares	**42.2**	**42.6**	**43.1**	**43.5**	**43.9**

ANOTHER COMBINATION PRODUCT COMING

As a result of our diligence we have also learned that Galderma is in late stage development on a combination of Differin (adapalene) and benzoyl peroxide. We believe that this product, if approved, would have a negative impact on the market opportunity for both Velac and Clin-RA. Bacterial resistance to benzoyl peroxide is not a possibility while it is a potential problem for clindamycin. Additionally, many clinicians prefer Differin's tolerability to that of tretinoin. Both issues would be effective detailing messages for Galderma when competing against Velac and/or Clin-RA. Connetics counter-detail message against a Differin-benzoyl peroxide product would likely focus on the potential bleaching (clothing, sheets, etc) that such a combination could cause due to the benzoyl peroxide.

A potential launch timeline for this product is difficult to pinpoint. However, if the company ran two successful parallel studies, it could theoretically be on the market in H2:06, assuming a filing in H2:05. Therefore, a potential approval of Differin-benzoyl peroxide could slow the growth rate of Velac in 2006 and beyond. We estimate that the product could negatively impact sales of Velac by 10-15%. Differin-BP is not currently in our Connetics assumptions and therefore represents an added risk to the stock.

REVENUE GROWTH OUTLOOK

Outside of the recently launched Evoclin (acne), end-market demand is slowing for Connetics current products. Year/year growth in prescriptions for Olux (non-scalp psoriasis) and Luxiq (scalp dermatoses) appears to have slowed to high single-digits over the last 6 weeks, from low-mid teens over the last several quarters. These two products account for 50% of Connetics total sales. We estimate that Olux & Luxiq combined will contribute $94mm to Connetics 2005 revenues. Meanwhile, year/year growth in prescriptions for Soriatane appears to approximate 4-5% in the most recent months. U.S. sales of Soriatane account for approximately 29-30% of Connetics total revenues. We estimate that U.S. sales of Soriatane will contribute approximately $50mm to 2005 revenues for the company. As we've previously highlighted, Soriatane has no Hatch-Waxman or patent protection and therefore potential competition from generics is always looming. There are currently two active Drug Master Files on record with the FDA. The timing of competition is uncertain since these potential generics would be approved under paragraph III of Hatch-Waxman.

If the Velac launch is delayed by 12-18 months, Connetics revenue growth will have to come predominantly from the launch of Evoclin over the coming four quarters. That being said, the product is off to a strong start, with estimated demand of approximately $17mm, based on recent weekly IMS trends. We believe the product will contribute approximately $18mm to 2005 revenues, with the product growing to approximately $56mm in 2009.

We expect that Connetics will experience a considerable slowdown in top-line growth over the coming quarters, regardless of whether or not Velac is significantly delayed. Connetics trailing 12-months revenue growth (through Q1:05) has been over 100%. If Connetics experiences a 12-18 month delay in approval of Velac, we estimate that its trailing 12-month revenue growth will decelerate to 64%, 47%, 26% and 17% between Q2:05 and Q1:06. If Velac is delayed by 3-months, we believe this would add an incremental 4-5% to Connetics' top-line growth starting in Q3:05.

Figure 2: Connetics - Trailing 12-months revenues

	Q1'05	Q2'05	Q3'05	Q4'05	Q1'06	Q2'06	Q3'06	Q4'06
Trailing 12-months Rev	$162	$168	$178	$182	$189	$195	$205	$218
% Growth	101%	65%	47%	26%	17%	16%	15%	20%
Add: Velac - 6/25/05	-	-	-	6.0	7.0	8.0	3.0	3.0
Adj.'d Trailing 12-month Rev	$163	$169	$178	$188	$196	$203	$208	$221
% Growth	101%	64%	51%	30%	21%	20%	17%	17%

It should be noted that our model currently assumes that generic versions of Soriatane enter the market in H2:06. If this does not occur, we estimate that it would contribute an additional 2-4% to top-line growth in H2:06.

VALUATION AND OUTLOOK

In our opinion, the Connetics' valuation is determined by three components: 1) the operations of the company, excluding Soriatane (due to its generic risk), 2) the cash generating abilities of Soriatane, and 3) the risk adjusted value of potential unknown events (such as the timing approvals/launches for Velac, Clin-RA and Differin-BP). We have provided figures highlighting the metrics by which we have valued each of these three components (figures 3-5). In summary, we believe that the stock is trading close to its fair value based on these three metrics.

The company's next major catalyst is its pending PDUFA date for Velac on 6/25/05 and we expect that the product approval will be delayed by approximately one quarter. In our opinion, this would be the result of either an approvable letter or an extension of the PDUFA date. In this scenario (60% probability), we expect the stock will trade flat to modestly higher, as fears of a longer delay would be eased. In the case of a long delay (12-18 months, 20% probability), requiring the generation of additional clinical data, we suspect that the stock would trade into the mid-teens. Conversely with an approval (20% probability), we would believe the stock could rebound into the low/mid-$20's.

Figure 3: Connetics –Value of EPS – Excluding Soriatane

Connetics 2007 EPS - ex. Soriatane	**$0.72**	**$0.72**
Multiple Range	25	30
Discount Rate	20.0%	20.0%
Value of CNCT - Ex Soriatane	**$15.00**	**$18.00**
Add: Soriatane Val	$2.50	$2.50
Target Price	**$17.50**	**$20.50**
Risk Adjusted Value of Potential Changes	$1.20	$1.20
Target Price	**$18.70**	**$21.70**

Figure 4: Value of Soriatane Cash Flows

Soriatane Value	**2004**	**2005**	**2006**	**2007**	**2008**	**2009**
Revenues	**$53.6**	**$69.0**	**$72.4**	**$76.0**	**$79.8**	**$83.8**
COGS	($5.4)	($6.9)	($7.2)	($7.6)	($8.0)	($8.4)
Interest Income	$0.9	$0.7	$0.8	$0.8	$0.9	$0.9
Pretax	**$49.1**	**$62.8**	**$65.9**	**$69.2**	**$72.7**	**$76.3**
Tax Expense	$1.5	$22.0	$23.1	$24.2	$25.4	$26.7
Net Impact	**$47.6**	**$40.8**	**$42.9**	**$45.0**	**$47.3**	**$49.6**
Discount Rate	-	30.0%	40.0%	50.0%	60.0%	70.0%
# Years	-	0	1	2	3	4
PV – Annual	**-**	**$40.8**	**$30.6**	**$20.0**	**$11.5**	**$5.9**
Total PV	**-**	**$40.8**	**$71.4**	**$91.4**	**$103.0**	**$108.9**
Per Share	-	**$0.97**	**$1.68**	**$2.12**	**$2.37**	**$2.48**

Figure 5: EPS & Value Impact of Potential Changes to Model

Factor	EPS Impact - Per Factor 2004	2005	2006	2007	2008	2009	Multiple on '07 EPS	$ Impact	Probability	Adjusted Impact
Taxed EPS - Ex Soriatane	($0.41)	($0.42)	$0.34	$0.72	$1.41	$2.06	-	-	-	-
Velac launch Q4:05	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	25	$0.00	60.0%	$0.00
Approval on 6/25/05	-	$0.10	$0.05	$0.07	$0.07	$0.07	25	$1.75	10.0%	$0.18
15-Month Velac Delay	-	($0.08)	($0.39)	($0.21)	($0.22)	($0.22)	25	($5.25)	30.0%	($1.58)
15-Month Clin-RA Delay	-	$0.08	$0.33	$0.42	$0.46	$0.50	25	$10.50	35.0%	$3.68
No Generic Soriatane	-	-	$0.02	$0.31	$0.55	$0.74	25	$7.75	20.0%	$1.55
Differin-BP (15% impact)	-	-	($0.07)	($0.21)	($0.28)	($0.35)	25	($5.25)	50.0%	($2.63)
Sum										**$1.20**

Figure 6: Connetics EPS Model

Revenues	**2004**	**Q1'05**	**Q2'05**	**Q3'05**	**Q4'05**	**2005**	**2006**	**2007**	**2008**	**2009**
Product	142.0	42.1	44.8	46.3	53.5	186.7	241.0	273.9	327.1	380.5
Royalty	2.3	0.2	0.3	0.4	0.5	1.3	4.9	10.0	15.5	20.2
Contract & Other	-	-	-	-	-	-	-	-	-	-
Total Revenues	**144.3**	**42.3**	**45.1**	**46.7**	**54.0**	**188.0**	**246.0**	**283.8**	**342.6**	**400.7**
% Growth	99.3%	69.8%	17.9%	25.0%	23.2%	30.3%	30.8%	15.4%	20.7%	16.9%
COGS	12.7	3.8	4.0	4.2	5.0	16.9	22.9	26.9	33.1	39.6
Licensing Amort.	11.8	3.4	3.4	3.4	3.4	13.6	10.4	11.4	12.3	13.2
R & D	21.3	5.9	6.5	6.8	6.8	26.0	30.2	34.4	38.5	42.7
SG&A	72.2	27.8	27.7	22.5	22.0	100.0	117.0	133.0	149.0	163.0
Operating Income	**26.4**	**1.4**	**3.5**	**9.8**	**16.8**	**31.5**	**65.5**	**78.1**	**109.8**	**142.1**
Interest Income	1.5	0.5	1.0	1.1	1.1	3.6	3.3	8.8	11.8	15.8
Interest Expense	(3.2)	(0.8)	(0.9)	(0.9)	(0.9)	(3.3)	(3.4)	(5.8)	(4.9)	(4.0)
Other	(3.4)	(0.1)	-	-	-	(0.1)	(63.9)	-	-	-
Pretax Income	**21.2**	**1.0**	**3.7**	**10.0**	**17.0**	**31.7**	**65.4**	**81.1**	**116.6**	**153.9**
Tax Expense	1.5	0.1	0.4	1.0	1.7	3.2	16.2	28.4	40.8	53.9
Net Income	**19.7**	**0.9**	**3.3**	**9.0**	**15.3**	**28.6**	**49.2**	**52.7**	**75.8**	**100.1**
Interest Add-Back	-	0.6	0.6	0.6	0.6	2.3	2.3	2.3	2.3	2.3
Net Income, Adjusted	**-**	**1.5**	**3.9**	**9.5**	**15.9**	**30.9**	**51.5**	**55.0**	**78.1**	**102.4**
Net Income - Fully Taxed	**13.8**	**1.3**	**3.0**	**7.0**	**11.7**	**22.9**	**44.8**	**55.0**	**78.1**	**102.4**
EPS	**$0.52**	**$0.04**	**$0.09**	**$0.23**	**$0.38**	**$0.73**	**$1.21**	**$1.28**	**$1.80**	**$2.33**
% Growth	-	-27%	-55%	135%	125%	41%	65%	6%	41%	30%
EPS - Fully Taxed	**$0.36**	**$0.03**	**$0.07**	**$0.17**	**$0.28**	**$0.54**	**$1.05**	**$1.28**	**$1.80**	**$2.33**
% Growth	-	-17.4%	-46.8%	156.5%	136.2%	51.9%	93.2%	21.6%	40.6%	29.8%
Share Count	**38.4**	**42.2**	**42.2**	**42.2**	**42.2**	**42.2**	**42.6**	**43.1**	**43.5**	**43.9**
% Growth	18.1%	17.6%	1.4%	10.9%	10.6%	9.8%	1.0%	1.0%	1.0%	1.0%

Figure 7: Connetics – Revnues Projections

	2004	Q1'05	Q2'05	Q3'05	Q4'05	2005	2006	2007	2008	2009
Product Revenues										
Olux (Non-Scalp Psoriasis)	61.8	15.8	16.7	17.6	17.8	67.9	74.6	79.9	83.8	87.2
Luxiq (Scalp Dermatoses)	23.8	5.7	6.2	6.9	7.0	25.8	28.6	30.4	31.6	32.5
Evoclin (Acne)	2.9	3.1	4.5	5.0	5.5	18.0	28.0	40.0	49.0	56.0
Soriatane - (Severe Psoriasis) - WW	53.6	17.6	17.4	16.8	17.2	69.0	63.7	46.8	33.2	23.8
Total Product Revenue	**142.0**	**42.1**	**44.8**	**46.3**	**47.5**	**180.7**	**195.0**	**196.9**	**197.6**	**199.6**
Pipeline Products										
Velac (Acne)	-	-	-	-	6.0	6.0	34.0	50.0	65.0	80.0
Desilux (Emolient)	-	-	-	-	-	-	7.0	13.0	22.0	28.0
Primolux-EF (Non-Scalp Psoriasis)	-	-	-	-	-	-	5.0	9.0	13.0	16.0
Luxiq EF (Scalp Dermatoses)	-	-	-	-	-	-	-	2.0	3.5	5.0
Extina (Antifungal)	-	-	-	-	-	-	-	3.0	10.0	20.0
Calcipotriene Foam (Mild/Mod Psoriasis)	-	-	-	-	-	-	-	-	6.0	12.0
Clinda/BP Foam (Acne)	-	-	-	-	-	-	-	-	10.0	20.0
Topical Soriatane (Mild/Mod Psoriasis)	-	-	-	-	-	-	-	-	-	-
Total Pipeline Contribution	-	-	-	-	**6.0**	**6.0**	**46.0**	**76.9**	**129.4**	**180.9**
Total Product Sales	**142.0**	**42.1**	**44.8**	**46.3**	**53.5**	**186.7**	**241.0**	**273.9**	**327.1**	**380.5**
Total Royalty	**2.2**	**0.2**	**0.3**	**0.4**	**0.5**	**1.3**	**4.9**	**10.0**	**15.5**	**20.2**
Total Revenues	**144.1**	**42.4**	**45.1**	**46.7**	**54.0**	**188.0**	**246.0**	**283.8**	**342.6**	**400.7**

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